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Ports, Pallets and Protectionism: The logistical costs of EU trade barriers



Ports, Pallets, and Protectionism: The Logistical Costs of EU Trade Barriers

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Executive Summary

Irrespective of the result of the forthcoming referendum on Britain's EU membership, Britain will continue trading with the EU. Yet leaving the EU would positively affect Britain's trade with the rest of the world. By eliminating the artificial competitive advantage that EU goods enjoy over non-EU goods as a result of protectionist trade barriers, such as the Common External Tariff, a British exit from the EU would level the playing field for the UK's international trade, and allow freer access to global markets.

The artificially distorted trade patterns that result from EU trade barriers also impact negatively upon Britain's transport infrastructure. This is because of the inability of the UK rail system to accommodate, in a general and economical manner, the standard design of loading pallet used widely on the European mainland. Accordingly, the majority of unitised freight between the UK and mainland Europe is carried in HGVs by road, and is concentrated on routes connecting to the port of Dover and the Channel Tunnel. As a result, there is significant congestion on the motorways and trunk roads of Kent and far beyond, resulting in delays and demands for additional public investment. This pressure is intensified by EU protectionism.

The forthcoming EU Port Services Regulation poses a further danger to Britain's transport network. Legislation aimed at creating internal markets in large, State-owned, Continental ports is likely to threaten the viability of the predominantly smaller, private ports in the UK. The Port Services Regulation is therefore likely to damage Britain's trade, especially with non-EU countries.

Although the EU remains a major market for the UK, it contributes a consistently decreasing share of UK trade. It is also the world's only declining trade bloc. Market forces are increasingly orienting the UK toward trading partners beyond Europe. Yet EU trade barriers are not only counteracting market forces, but placing excessive and unnecessary pressure on Britain's transport infrastructure, by concentrating freight movement through the Channel ports. This paper argues that the distortionary effects of the EU both on UK trade and on UK logistics should be recognised in the EU referendum debate.

1. The Logistical Effects of Trade Barriers

Customs unions often have a distortionary effect on trade. The EU is no exception. The Common External Tariff, coupled with regulatory barriers to non-EU trade, raises the cost of non-EU imported goods relative to goods sourced from within the EU. Consequently, UK trade is artificially distorted toward the EU as opposed to global markets. Though it is seldom noted, this has a further impact on Britain's transport logistics and infrastructure.

To the extent that customs unions abolish pre-existing trade barriers, they can also result in trade creation, whereby goods can be sourced from more efficient, lower-cost suppliers within the union. However, a further effect of customs unions on trading patterns is trade diversion. Where certain goods can be sourced more cheaply from suppliers outside a customs union, the effect of the union is to divert trade to less efficient, higher-cost suppliers within the union. Whereas trade creation increases national wealth, trade diversion usually decreases it.

Although official EU and UK Government reports often seek to downplay the possibility of trade diversion, independent analysis suggests that it could be significant.¹ With the steady abolition of tariff barriers in global markets, owing to World Trade Organisation agreements, the EU today may no longer facilitate British access to European markets as much as it diminishes British access to global markets. The net effect of the EU on UK trade could therefore be trade diversion rather than trade creation. In the sectors with the highest tariffs, such as manufacturing and agriculture, trade diversion might be substantial.

While the issue of EU trade diversion is often discussed, its knock-on effects on transport logistics are largely ignored. Yet the evidence of pressure on certain parts of Britain's transport network suggest that the impact of trade diversion on transport logistics is profound and costly.

a. The Euro-pallet constraint

Trade routes between Britain and Continental Europe are severely limited by logistical constraints, which arise from divergent design standards. Consumer goods traded within virtually the whole of mainland Europe are predominantly transported using "Euro-pallets" – the standard European pallet as specified by the European Pallet Association, with dimensions of either 0.8m or 1m by 1.2m.² The Euro-pallet is designed to be transported either in standard Continental-gauge rail wagons, or by road in HGVs.

¹ E.g. Minford, P. *Should Britain leave the EU?*, Edward Elgar/IEA, 2005, 2016 (2nd ed.)

² <http://www.epal-pallets.de/uk/produkte/paletten.php>

The Euro-pallet is, however, unsuitable for deep sea transport in International Organisation for Standardisation (ISO) specification containers. At 2.44m wide, the standard ISO container is slightly too narrow for optimal use of space, as the 4cm gap is not sufficient to permit two rows of 1.2m-wide pallets.³⁴ It also cannot be side-loaded.

The different technical standards of mainland Europe affect the pattern of trade between Britain and the EU in two ways. First, the lack of interoperability between the Euro-pallet and ISO containers limits intermodal freight transport between Britain and Continental Europe by sea. Second, the lack of interoperability between Continental-gauge rail wagons and the majority of the UK's rail network severely limits the scope for moving more freight between Britain and Continental Europe by rail.

Consequently, the majority of consumer freight between Britain and Continental Europe is Roll-on, Roll-off ('Ro-Ro') traffic – i.e. transported in HGVs via either short-sea ferry routes, or the Channel Tunnel road freight shuttle. By contrast, excluding bulk commodities, freight traffic between Britain and the rest of the world is almost exclusively Lift-on, Lift-off ('Lo-Lo') – transported in intermodal, ISO-standard containers, the most widely used variants of which can be transported by rail in Britain. The most recent Annual Port Freight Statistics report notes:

"Transporting units through Roll-on/Roll-off was the primary method of transporting units between the UK major ports and Europe, with 77 per cent of main freight units being Ro-Ro units. Routes between UK major ports and Europe tend to be dominated by Ro-Ro, whilst routes outside of Europe/worldwide ports tend to ship Lo-Lo containers. Of the traffic travelling on deep sea journeys, 99.96 per cent were Lo-Lo containers."⁵

b. Over-concentration on the Dover Straits

The effect of trade diversion on logistics derives both from the volume of Ro-Ro freight originating from Europe, and from its concentration at the Dover Straits, using either the port of Dover or the Channel Tunnel. This is largely because the Dover Straits provide the shortest crossing to Continental Europe. Also, few UK ports handle large volumes of both Lo-Lo and Ro-Ro freight. As the annual Port

³ See "Container Specification," Hapag-Lloyd, p.5: <https://www.hapag-lloyd.com/downloads/press_and_media/publications/Brochure_Container_Specification_en.pdf>

⁴ C.f. "Optimal Logistics Units," DHL: "As a rule, Euro pallets are not used in ISO containers because the Euro pallet does not fit into the ISO container. The reason for the different sizes lies in the systems' disparate origins. The ISO container was developed in the United States, the Euro pallet in Europe." <http://www.dhl-discoverlogistics.com/cms/en/course/tasks_functions/packaging/optimal.jsp>

⁵ "UK Port Freight Statistics: 2014," Department for Transport, 26/08/15, p.17: <https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/465439/port-freight-statistics-2014.pdf>

Freight Statistics report notes, “many of the UK major ports are specialised in the cargo categories they handle, as seen with Milford Haven, Felixstowe, and Dover.”⁶

Official figures show that almost half of the UK’s Ro-Ro freight travels via Dover and the Channel Tunnel. In 2014 Dover handled 2.5 million Ro-Ro main freight units, or 34% of total maritime Ro-Ro main freight by units, of which 2.4 million were road vehicles. This amounted to 27.3 million tonnes, or 30% of total maritime Ro-Ro main freight by weight.⁷ 98% of Dover’s freight traffic (by weight) either originated in or was destined for the EU.⁸ The Channel Tunnel handled an additional 1.6 million units of main freight, of which 1.4 million were road vehicles.⁹ ¹⁰ According to Highways England, 10,800 freight vehicles on average cross the Dover Straits every day.¹¹

The road freight that travels via the Dover Straits adds to traffic from passenger vehicles. The Port of Dover reports annual passenger traffic, comprising tourist cars and coaches, of 2.6 million vehicles for 2014.¹² Another 2.6 million passenger vehicles travelled via the Channel Tunnel.¹³

By comparison to Ro-Ro, the predominantly non-European Lo-Lo traffic is more evenly distributed. In 2014, Felixstowe handled 41% of total Lo-Lo traffic, the largest share of any port.¹⁴ This amounted to 2.4 million units, and 25 million tonnes – significantly less than the Dover/Channel Tunnel combination.¹⁵ The remainder of the Lo-Lo freight was mostly handled by ports in London, Liverpool, Southampton, and on the Forth, but with a large number of smaller ports also contributing, thereby spreading the load geographically.¹⁶ Moreover, Lo-Lo traffic is movable by rail, so does not create the same pressures as Ro-Ro on road infrastructure.

⁶ *Ibid.* p.8.

⁷ “Table PORT 0206,” Department for Transport, 26/08/15:

<https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/455462/port0206.xls>

⁸ “Port of Dover Annual Report 2014,” Dover Harbour Board, 03/2015, p.8:

<<http://www.doverport.co.uk/administrator/tinymce/source/PDF/Port%20of%20Dover%20Annual%20Report%202014.pdf>>

⁹ “Table PORT 0202,” Department for Transport, 26/08/15:

<https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/455458/port0202.xls>

¹⁰ “Table RAI 0108,” Department for Transport, 26/08/15:

<https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/482740/rai0108.xls>

¹¹ “Managing freight vehicles through Kent,” Highways England, 12/2015, p.6:

<https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/484139/S150599_Managing_Freight_Through_Kent_Consultation.pdf>

¹² <http://www.doverport.co.uk/about/performance/>

¹³ “Table RAI 0108”

¹⁴ “UK Port Freight Statistics: 2014,” p.8.

¹⁵ “Table PORT 0206”

¹⁶ “UK Port Freight Statistics: 2014,” p.8.

c. Congestion in Kent and its costs

The consequence of the concentration of freight in road vehicles travelling via the Dover Straits is serious pressure on motorways and trunk roads in Kent and far beyond. Since the late 1980s, Operation Stack has been used to queue freight traffic on the M20 during periods of emergency or disruption. Yet in recent years, the use of Operation Stack has become more frequent. The combination of industrial action in Calais and the migrant crisis, which has disrupted traffic flows through the Channel Tunnel, saw Operation Stack employed on a record 32 days between January and November 2015.¹⁷ Several junctions and carriageways of the M20 were closed to accommodate as many as 5,000 lorries at once.¹⁸ For the first time, Manston Airport was used in Operation Stack as a temporary lorry park.

Although Operation Stack is designed to manage congestion, it cannot prevent major disruption. Highways England states:

“Operation Stack causes a lot of disruption to residents and businesses in Kent. Other traffic is unable to use the motorway and local roads become severely congested. This results in disturbance, increased travel times, missed appointments, late deliveries, and a general negative impact on residents, businesses and visitors in Kent.”¹⁹

This disruption is often expensive. In summer 2015, Operation Stack was estimated to have cost Kent Police £700,000, haulage companies £750,000 per day, and the UK economy as a whole £250 million.^{20 21}

The negative impact of this congestion on both Kent residents and the freight industry has also necessitated more public investment. In December 2015 the Government launched a consultation on the construction of a permanent, off-road lorry area to replace Operation Stack in most circumstances.²² In March 2016 the Home Secretary announced plans to invest £17 million on further measures in France to manage the migrant crisis.²³ Upgrades on the M2, the M20, and the A20 form part of the £2.2 billion allocated for road improvement in London and the South East.²⁴ In addition, the Government is planning a new, multi-billion

¹⁷ “Managing Freight through Kent,” p.7.

¹⁸ *Ibid.*

¹⁹ *Ibid.*

²⁰

http://www.fta.co.uk/media_and_campaigns/press_releases/2015/20150724_port_delays_cost_freight_industry_750000_a_day_says_fta.html

²¹ <http://www.bbc.co.uk/news/uk-england-kent-33688822>

²² “Managing Freight through Kent,” p.8.

²³ “Further joint action between UK and France in Calais region,” Home Office, 03/03/16: <<https://www.gov.uk/government/news/further-joint-action-between-uk-and-france-in-calais-region>>

²⁴ “Road Investment Strategy: for the 2015/16 – 2019/20 Road Period,” Department for Transport, 03/2015, p.44 ff.:

<https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/408514/ris-for-2015-16-road-period-web-version.pdf>

pound, tolled Lower Thames Crossing that will traverse Thurrock and environmentally sensitive parts of north Kent.²⁵

Although in the winter/spring of 2015/2016 the worst congestion has been the result of the migrant crisis and is not a feature of normal running, the dependence on the Dover Straits for freight traffic has intensified and exacerbated the impact of the crisis. Both the need for public investment and the cost of congestion would be less severe were Britain not already over-reliant on Dover, the Channel Tunnel, and trunk roads in Kent as a trade route.

d. Future projections: rising pressure

The pressure on the road network in Kent is only likely to grow in years to come. Both Eurotunnel and the Port of Dover are expecting HGV traffic to rise rapidly. Eurotunnel is planning for the number of HGVs it handles to increase by 43%, from 1.4 million to 2 million, by 2020.²⁶ The Port of Dover recorded its highest ever HGV traffic in 2014, a rise of over 20% since 2012, and is projecting a 40% increase in cross-Channel freight traffic by 2030.^{27 28}

²⁵ https://highwaysengland.citizenspace.com/cip/lower-thames-crossing-consultation/user_uploads/lower-thames-crossing-consultation-booklet.pdf

²⁶ "2014 Annual Review," Groupe Eurotunnel SE, 03/2015, p.7: <<http://www.eurotunnelgroup.com/uploadedFiles/assets-uk/Shareholders-Investors/Publication/Annual-Review/2014-AR-CSR-UK-EurotunnelGroup.pdf>>

²⁷ "Port of Dover Annual Report 2014," p.10.

²⁸ <http://www.doverport.co.uk/about/performance/>

2. Ports under threat: the Port Services Regulation

In any discussion of the effects of EU membership on the UK's maritime logistics, it would be remiss not to mention the danger to British ports posed by the forthcoming EU Port Services Regulation. The draft legislation, which has just received initial assent from the European Parliament, is designed to create internal competition in large, State-owned Continental ports.²⁹ Since the majority of Britain's ports are smaller and privately owned, the effect of the regulation will be to undermine their economies of scale and decrease – rather than increase – their competitiveness.³⁰

The cost of the Port Services Regulation to the British port sector could be considerable. The regulation has been strongly opposed by both the UK Major Ports Group (UKMPG) and the British Ports Association (BPA), which stated in a recent joint report: "EU measures such as the proposed EU Port Services Regulation would impose red tape, cause uncertainty and put investment and jobs at risk."³¹ It is also opposed by HM Government. Official policy states: "the Government does not believe that the Proposal is necessary in respect of the UK's proven competitive market based port sector."³² Nonetheless, the Government has been unable either to prevent the bill's passage, or ensure that British ports are exempted.

The Port Services Regulation could also have a further negative bearing on road congestion in the vicinity of the Channel ports. By decreasing the efficiency of British ports, the Port Services regulation would increase the relative competitiveness of the Channel Tunnel as a corollary, and potentially Dover as well. The Regulation's requirement for internal competition within ports would most obviously handicap UK Lo-Lo ports, and non-EU Lo-Lo freight. It may have less impact on Dover, which, as a Ro-Ro port, does not have the same degree of internal logistics needed for Lo-Lo traffic. Consequently, in addition to harming British ports, the PSR could further intensify the pressure on the road network in South East England.

²⁹ <http://container-mag.com/2016/03/09/european-parliament-greenlights-eu-ports-regulation/>

³⁰ <http://www.portstrategy.com/news101/world/europe/eu-port-directive-will-undermine-uk-ports>

³¹ "Delivering value, creating prosperity: a blueprint for ports policy," UKMPG & BPA, p.6:

<http://www.britishports.org.uk/system/files/documents/blueprint_for_ports_policy_0_0.pdf>

³² <http://www.parliament.uk/written-questions-answers-statements/written-question/commons/2015-10-26/13435>

3. Rebalancing trade and logistics: the consequences of Brexit

One of the consequences of leaving the European Union would be that the effects of trade diversion arising from EU trade barriers would be eliminated. EU goods, particularly in the most heavily protected sectors (some manufacturing and agriculture), would no longer have an artificial competitive advantage over goods from non-EU markets. As such, it would be logical to expect a rebalancing of trade toward non-EU markets.

This rebalancing would not only be positive for the UK in terms of trade, but also in terms of transport logistics. The shift toward non-EU markets in consumer goods would reduce the pressure that would otherwise affect the Dover Straits and trunk roads in South East England. Instead, international container traffic would be more evenly distributed geographically and more likely to be transported by rail on the longer port-to-consolidation-point trunk routes, whilst journeys between ports and inland delivery/loading points would in most cases be shorter.

Whereas higher volumes of HGVs travelling to and from mainland Europe would exacerbate congestion on the road network in South East England, an increase in rail freight originating from non-European markets would be unlikely to place corresponding pressure on the rail network. Over the last decade, the amount of rail freight transported has significantly decreased, in terms of tonne kilometres moved.³³ This is likely to reflect decreasing coal transports, following the closure of several coal power stations. The Office of Rail and Road reports:

“There has been a decrease in freight train movements over time. A maximum of 455,561 movements was recorded in 2005-06 and a minimum of 265,559 in 2010-11. The decrease could be part explained by the fall in the use of coal in coal powered plants therefore less coal is required to be carried by rail. In 2014-15, the number of freight movements decreased by 2.1% compared to 2013-14.”³⁴

Outside the EU, British ports would also be free from the deleterious impact of the Port Services Regulation, thereby preventing a further hindrance to non-EU trade from exacerbating pressures on the road network.

³³ “Table TSGB 0401,” Department for Transport, 10/12/15:

<https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/455462/port0206.xls>

³⁴ “Freight Rail Usage 2015-16 Q3 Statistical Release,” Office of Rail & Road, 18/02/16, p.8:

http://orr.gov.uk/_data/assets/pdf_file/0004/20857/freight-rail-usage-2015-16-quarter-3.pdf

A vote to leave the EU would not just increase our prosperity but also alleviate transport congestion currently suffered by South East England. In place of a customs union, which artificially diverts UK trade patterns to the European Union, Britain would be able to establish a level playing field for free trade with countries around the world. The argument for global free trade outside the EU is also the case for restoring balance and sustainability to Britain's transport logistics.